

Third Party Ownership of Hospital Satellite Facilities

Case Study:
Middlesex Hospital Marlborough Medical Center
Marlborough, Connecticut
Completed: April 2004

Introduction

Middlesex Hospital operates more than 30 inpatient, outpatient, primary care and emergency facilities focusing on the healthcare needs of Greater Middlesex County in central Connecticut, with the Hospital itself located in the city of Middletown. They have nearly 300 active physicians on their medical staff, representing every major medical specialty.

The Hospital opened the original Marlborough Medical Center, a satellite emergency facility, in the town of Marlborough in 1990. Later on, a radiology suite was added in town, although this was located in a separate building up the street from the emergency center.

Marlborough is a community of approximately 5,700 people that is located 14 miles east of Middletown. Though small in population, its location along the Route 2 corridor at the interchange with Route 66 made it an ideal location for healthcare services for the surrounding communities. As a result, the Marlborough Medical Center grew to over 30,000 patient visits per year.

The Hospital recognized the importance of these services and the potential for continued growth in this area, so they decided to relocate and expand the center and consolidate services under one roof.

The Assignment

Middlesex Hospital identified the following parameters for the project:

- A site for the project had been identified. This was a parcel of land owned by a group of local physicians, who were willing to lease a portion of the site to the project. It was located near the center of the town, within sight of the existing facility.
- Existing Emergency, Radiology, and Laboratory departments would be expanded and relocated to the new facility.
- The facility would provide state-of-the-art healthcare.
- The Hospital would sign a 25-year lease with a third party ownership entity, requiring only a minimal capital outlay by the Hospital.

Stratton Brook Associates was hired to design and construct the project, and the principals of Stratton Brook formed MHC-1 LLC, an entity with the sole purpose of developing this real estate investment.

Hospital Needs Assessment and Design Process

Stratton Brook's principals met with hospital administrators, department heads, managers, and staff to determine the space program for the facility. Utilization data provided by the Hospital's departments was used to confirm functional requirements. A detailed space program was developed and periodically updated. Throughout this initial analysis, Stratton Brook provided overall project management.

Upon approval of the space program, Stratton Brook provided complete architectural and engineering services to bring the Hospital's needs and desires closer to reality. These services included:

- Architectural Planning and Design
- Civil Engineering
- Traffic Engineering
- Landscape Architecture
- Interior Design
- Structural Engineering
- Mechanical Engineering
- Electrical Engineering
- Cost Estimating and Economic Analysis
- Project Scheduling

We met with State of Connecticut Department of Health staff to review the project's design, and developed necessary site plans for local Zoning Board review and approval.

The resulting design comprised 21,745 square feet in a predominately single-story building (there is a partial basement not used for healthcare). The exterior look is historical in feel, in keeping with the desires of community leaders, but the interior is a state-of-the-art healthcare facility, which includes the following:

- An Emergency Department with a dedicated Waiting Area; an Express Care area with three treatment rooms; a main ED with a large central nurses station, six treatment rooms and two trauma rooms; all needed support spaces and careful integration with the Radiology and Laboratory areas.
- A Radiology Department with a CT Scan suite, one radiography/fluoroscopy room, two radiography rooms, one ultrasound, and two mammography rooms, organized around a central tech work area, with all necessary patient dressing and staff support areas.

- A Laboratory with patient specimen and drawing rooms.
- A Mobile Technology dock for mobile trailers housing MRI and PET Scan equipment.
- A lighted helipad for evacuation of critically injured patients to area hospitals.

Upon final approval of the design, scope of work, and schedule by the Hospital, lease agreements were finalized, and architectural and engineering construction documents were prepared.

The Lease

Middlesex Hospital (as tenant) and MHC-1 LLC (as landlord) entered into a lease agreement for the project. General terms included:

- MHC-1 LLC, the entity created by Stratton Brook to own this specific building, would finance and construct the facility.
- Any changes requested by Middlesex Hospital during construction would be funded by MHC-1 and the rent adjusted accordingly.
- Base rent would remain the same for the first five years, and would be adjusted thereafter on the basis of the permanent financing interest rate (which had rate adjustments each five years).
- The term of the lease was 25 years (equal to the term of the financing).
- The Hospital has an option to purchase the building at the end of each of the first five years, at prices that were identified and included in the lease agreement.

Project Development and Construction

Stratton Brook Associates (through MHC-1) arranged construction and permanent financing of the project with a local commercial bank. In addition, appropriate equity investment was procured for the project.

Contracts for construction were executed between MHC-1 and local construction companies, and the project was constructed. Throughout the process, Stratton Brook provided overall project management and coordination.

A Grand Opening!

Middlesex Hospital sponsored a formal Grand Opening event on April 8, 2004, and the following week the building opened for patients. Speeches by the Hospital's president, as well as by local political and business leaders revealed how important this facility is to the residents of Marlborough and surrounding communities.

The Benefits to Middlesex Hospital

- **Design and Construction Expertise** - Stratton Brook specializes in the design and construction of healthcare facilities, and applied this expertise to the project to the benefit of the Hospital.
- **Custom Design** - Unlike a tenant fit-up in an existing space for rent, this building was completely designed from the ground up to meet the Hospital's requirements.
- **Preservation of Capital** - Since there were minimal capital outlays required, the Hospital was able to preserve their capital for use on other needed projects and programs.
- **Reduced Risk** - With a clearly identified scope of work and a signed lease, the Hospital had their design, construction, and financial risks managed.
- **Flexible Future Options** - The terms of the lease give the Hospital the future option to remain a tenant, or to purchase the building.
- **Arms Length with Physician Landlords** - The site on which the project is located is owned by local physicians. Negotiating a land lease between a hospital and physicians that are on the medical staff can be complicated by other relationships between the parties. Having Stratton Brook to negotiate and execute the land lease was an advantage.

Contact Randy Cole at 860-651-6751 or at rcole@strattonbrook.com to find out if third party ownership is right for your project.